

Fiscal Note

Fiscal Services Division



HF 613 – Fantasy Sports (LSB1635HV)

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Fiscal Note Version – New

Description

[House File 613](#) establishes new Iowa Code chapter 99E and allows for the addition of “fantasy sports contests” and “Internet fantasy sports contests” as legally recognized forms of wagering under Iowa Code section [99F.3](#). “Fantasy sports contests” are defined as any fantasy or simulated sports contests in which the following applies:

- The fantasy sports contest operator is not a participant in the game or contest;
- The value of all prizes and awards offered are known to contest participants in advance;
- All winning outcomes reflect the relative knowledge and skill of participants, and are determined by statistical results of the performance of individuals, including athletes in the case of sporting events;
- No winning outcome is based on the score, point spread, or any performance(s) of any single actual team or solely on any single performance of an individual athlete or player in any single event.

House File 613 also establishes a transitional license for any Internet fantasy sports contest operator that is currently granted a license to operate in two or more other states. Granted by the Iowa Racing and Gaming Commission (IRGC), the license shall be valid until the earlier of the time IRGC denies or approves the full license pursuant to new Iowa Code section 99E.5, or 12 months from the date of the time the Commission accepts an application for issuance of a license to conduct Internet fantasy sports contests.

“Internet fantasy sports contests” are defined as contests in which a person may establish and deposit money into an online account with an Internet fantasy sports contest operator, and use the balance for entering a fantasy sports contest by utilizing electronic means of communication. House File 613 imposes a 7.5% tax on the total entry fees and charges claimed by the third-party Internet fantasy sports service provider after the payout of all prizes and winnings from the total adjusted gross revenues. This amount is adjusted through location multiplier based on the percentage of Iowa participants in the Internet fantasy sports contest in comparison to total Internet fantasy sports contest participants. The Bill creates a Class D felony for willfully failing to comply with requirements, resulting in the individual being barred for life from Internet fantasy sports contests. House File 613 takes effect on July 1, 2017, with the exception of the section establishing the setoff procedure as performed by the Department of Administrative Services (DAS). This section becomes effective on July 1, 2019.

Background

The State of Iowa permits individuals 21 years of age or older to take part in gambling games and related activities. Each gambling licensee must collect debts owed to the State from persons participating in gambling activity. Under current law, a single occurrence win equal to or greater than \$1,200 is considered a taxable event and subject to outstanding debt collection. The amount of the debt constitutes a valid lien against the winnings of the person and is collected from the winnings. Each licensee is provided electronic access to the names of

persons indebted to the State for purposes of this setoff procedure. The setoff procedure is conducted by the DAS pursuant to Iowa Code section [8A.504](#). The DAS also charges a \$7 administrative fee for the setoff procedure. Delinquent debt and past due taxes are deposited in the General Fund in the fiscal year collected.

The IRGC, as a division of the Department of Inspections and Appeals (DIA), currently regulates and supervises all gaming institutions in the State of Iowa, investigating any violations of current law or the Commission's rules. The IRGC also acts as the primary licensing entity for such institutions. Under HF 613, the IRGC will have full jurisdiction over and shall supervise Internet fantasy sports contests and Internet fantasy sports contest operators, establishing and adopting rules to implement new Iowa Code chapter 99E pursuant to Iowa Code chapter [17A](#).

Assumptions

General Assumptions:

- Using national data provided by the Fantasy Sports Trade Association (FSTA), an individual participant 18 years of age or older spends an annual average of approximately \$318 on Internet fantasy sports contests.¹
- Total annual gross receipts as defined by the Internet fantasy sports contest service provider are comprised of all entry fees and charges collected annually. On average, 88.0% to 90.0% of this revenue is paid out as prizes and winnings. The remaining 10.0% to 12.0% of revenue is retained by the Internet fantasy sports contest service provider.
- The moneys received after taxing the remainder of revenues held by the Internet fantasy sports contest service provider will be adjusted by a residential percentage (multiplier) based on the total number of Iowa residents participating in the wagering contest.
- The Bill requires all tax revenue received from participation in Internet fantasy sports contests and adjusted for resident percentage to be deposited in the Rebuild Iowa Infrastructure Fund (RIIF). Of that revenue, 0.5% is to be transferred to the Department of Public Health (DPH) for the purpose of funding the Gambling Treatment Program established pursuant to Iowa Code section [135.150](#).
- The IRGC will charge a \$500 fee per license to conduct Internet fantasy sports contests. The IRGC will retain the full fee as paid by the licensee.
- The Department of Public Safety (DPS) charges a deposit fee to any company pursuing a gambling license in the State of Iowa. This deposit fee covers travel and accommodations for an investigator and may range up to \$5,000 depending on the location of the applicant. An Internet fantasy sports contest provider will be subject to the same investigation.

Correctional Impact Assumptions:

- The Bill establishes a Class D felony for the failure to willfully comply with the requirements set forth in the Bill. The average State cost for one Class D felony conviction ranges from \$6,300 to \$12,000.
- This change will become effective July 1, 2017. A lag effect of six months is assumed from the law's effective date to the date of first entry of affected offenders into the correctional system.
- Charge, conviction, and sentencing patterns and trends are not expected to change over the projection period.
- Prisoner length of stay, revocation rates, and other corrections policies and practices are not expected to change over the projection period.

Setoff Procedure Assumptions:

- House File 613 specifies that setoff procedures under the DAS will begin July 1, 2019.

¹ <http://fstta.org/research/industry-demographics/>

- According to the Department of Revenue (DOR), from FY 2011 to FY 2016, the average number of taxpayers who were billed for unpaid individual income tax in each fiscal year is 110,000. Of these, after the year of billing, approximately 57.5% of the billed amount remained delinquent.
- From FY 2011 to FY 2016, the median delinquent amount owed by all billed individual income taxpayers was \$330. For FY 2017, multiplying the estimated number of delinquent taxpayers, or 63,208 individuals, by the estimated median amount owed yields \$20.9 million that will be subject to setoff collections. This amount is adjusted for future years using Moody's Analytics projections for the Consumer Price Index (CPI).
- A total of 10.0% of lowans who participate in Internet fantasy sports will experience winnings of at least \$1,200 in a single occurrence annually.
- The DAS collects a total of \$7 for each setoff processing request from the Internet fantasy sports contest operator.

Staffing and Administrative Assumptions:

- **Department of Inspections and Appeals:** According to the DIA, the IRGC will need to hire one additional FTE position in FY 2018 to assist in regulating Internet fantasy sports gaming activity. Funding for this additional FTE position will come from the Gaming Regulatory Revolving Fund established pursuant to Iowa Code section [99F.20](#).
- **Department of Public Safety:** The Division of Criminal Investigation (DCI), housed under the DPS, states that it would require one additional FTE position in FY 2018 to carry out the enforcement and regulatory duties associated with regulating Internet fantasy sports contests. The investigative and regulatory duties of the DCI are funded through the [Gaming Enforcement Revolving Fund](#), which is funded by billing the gaming industry for 100.0% of the regulatory fees.
- **Department of Administrative Services:** For FY 2018, the Department estimates that it will need to hire one additional Accounting Technician 2 position to oversee the expanded duties of the current setoff program. In addition, the DAS also estimates incurring one-time costs to the Office of the Chief Information Officer in FY 2018. These costs would result from making technological changes to the existing setoff system to accommodate the new category of debt collected from Internet fantasy sports contests.
- **Department of Public Health:** In FY 2016, 27 clients were admitted to the DPH Gambling Treatment Program. With the legalization of Internet fantasy sports contests, the DPH estimates that clientele is expected to increase by another 50.0%, resulting in an additional 13 lowans entering the Program beginning in FY 2018. The average case rate for an individual patient is \$950. The DPH also estimates it will incur ongoing costs resulting from the expansion of public education regarding gambling addictions. Additionally, the DPH estimates it would incur one-time costs in FY 2018 in order to expand the Department's existing data system and update the "2018 Attitudes and Behaviors Survey" utilized in working with clients. No additional FTE positions are needed as existing staff will be utilized.

Summary of Impacts

Correctional Impact: Under provisions of the Bill, offenders will be subject to a Class D felony. The correctional impact cannot be estimated at this time, as it is uncertain how many offenders will be convicted under the Bill. The Legislative Services Agency (LSA) [Correctional Impact Statements Memo](#) dated January 30, 2017, contains additional information.

Minority Impact: The minority impact is anticipated to be minimal. The LSA [Minority Impact Statements Memo](#) dated January 30, 2017, contains additional information.

Fiscal Impact

Table 1 summarizes the total fiscal impact of increased personnel and administrative needs as discussed under Staffing Assumptions. According to the provisions of HF 613, no funding sources for the DAS and DPH cost estimates have been identified. It is assumed that these costs will be need be covered by the General Fund.

Table 1 - Total Personnel Costs and FTE Positions			
Departments	FY 2018	FY 2019	Total FTEs
Inspections and Appeals	\$130,000	\$130,000	1.0
Public Safety	100,000	94,000	1.0
Administrative Services	83,000	75,000	1.0
Public Health	47,000	22,000	0.0
	\$360,000	\$321,000	3.0

Personnel costs as estimated by the DPS and the DIA will be funded by the Gaming Enforcement Revolving Fund and the Gaming Regulatory Revolving Fund, respectively.

Rebuild Iowa Infrastructure Fund (RIIF): It is difficult to estimate the total impact that the legalization of Internet fantasy sports contests will have on the balance of the RIIF. The following fiscal impact estimate reflects the range of minimum and maximum impact based on the data available at this time.

Iowa's population, according to the most recent federal census, accounts for approximately 1.0% of the total population of the United States. According to the FSTA, approximately 18.0% of adults (18 and over) in the United States participate in Internet fantasy sports contests.² House File 613 requires that participants in Internet fantasy sports contests be over the age of 21. Extrapolating data from the U.S. Census Bureau, approximately 72.2% of Iowans are over the age of 21 and eligible to participate in Internet fantasy sports contests.³ As it remains difficult to speculate on how many Iowans over the age of 21 will choose to participate, **Table 2** displays potential revenue to the RIIF based on a range of participation percentages. The location multiplier referenced earlier in this Fiscal Note has already been applied to the following calculations.

Table 2 - HF 613 Tax Revenue Estimate Based on Participation Percentage								
Assumption	Total Players*	Average Annual Contest Entry Fee**	Total Entry Fees Collected	Total Taxable Amount	Tax Rate	Total RIIF Deposit	Total IDPH Transfer	Total Revenue
3.0% Participation	67,298	\$ 318	\$ 21,400,764	\$ 2,140,076	7.5%	\$ 149,805	\$ 10,700	\$ 160,505
5.0% Participation	112,163	\$ 318	\$ 35,667,834	\$ 3,556,783	7.5%	\$ 248,975	\$ 17,784	\$ 266,759
7.0% Participation	157,028	\$ 318	\$ 49,934,904	\$ 4,993,490	7.5%	\$ 349,544	\$ 24,967	\$ 374,511
10.0% Participation	224,325	\$ 318	\$ 71,335,350	\$ 7,133,535	7.5%	\$ 499,347	\$ 35,668	\$ 535,015

* Based on total Iowa population age 21 and over.
 ** Data provided by Fantasy Sports Trade Association, 2016

² <http://fsta.org/research/industry-demographics/>

³ <https://www.census.gov/quickfacts/table/PST045216/19>

Additional Revenue Impacts

- The IRGC will also collect \$500 from each approved licensee. The fee is collected annually and the license is considered active for a total of three years. Receipts from licensing fees cannot be estimated at this time, as it is uncertain how many Internet fantasy sports contest service providers will show interest in being licensed in the State.
- Under HF 613, the IRGC is allowed to charge the Internet fantasy sports contest service provider applicant an additional regulatory fee. The Internet fantasy sports contest service provider is allowed to credit this fee toward the total amount of income tax paid on all entry fees paid by lowans who participate in Internet fantasy sports contests. The fee has not been determined; however, it is likely that the credit of this fee back to the Internet fantasy sports contest service provider will have a minimal fiscal impact, reducing the amount of income tax revenue deposited into the RIIF.
- Moneys in the Gaming Enforcement Revolving Fund are collected through the billing of the gaming industry for 100.0% of all regulatory fees. As it is unclear at this time how many Internet fantasy sports contest operators will seek a license to operate in Iowa, and therefore how many operators the DCI will have to regulate, the DPS estimates that it may need General Fund assistance in funding the additional FTE position for the first two years.
- The DAS will also collect a fee of \$7 for every setoff request processed. At this time, it remains unclear how many Internet fantasy sports contest participants will be subject to the setoff process, but the fee revenue collected will likely be minimal.
- House File 613 provides that of the 7.5% revenue tax imposed on adjusted gross receipts of Internet fantasy sports service provider entry fees, an amount of 0.5% would be allocated to the DPH to assist in funding the Gambling Treatment Program. The amount of funds allocated to the Program is dependent on the number of individuals in the State of Iowa choosing to participate in Internet fantasy sports contests. An estimate of potential funding allocated to the Gambling Treatment Program is listed in **Table 2**.

General Fund Impact from Setoff Procedures

Several factors must be considered to estimate potential General Fund revenue resulting from DAS setoff procedures. Beginning in FY 2020, HF 613 would require Internet fantasy sports contest service providers to electronically check the name of any individual participant attempting to withdraw \$1,200 or more out of the individual's electronic account against the database of individuals' names who owe the State of Iowa money for various reasons, including unpaid income tax, child support, or other State debts. Should an individual participant owe a debt to the State, the total amount owed would be withdrawn from any collected winnings prior to any payout. Moneys collected through this setoff procedure are deposited into the General Fund.

From FY 2011 to FY 2016, the DOR billed an average of 110,000 individual income taxpayers annually for unpaid individual income tax. After one year, 42.5% of the amount billed was collected, leaving 57.5% delinquent. The median amount owed per individual taxpayer totaled \$330. Taking into account that approximately 18.0% of adults in the United States participated in Internet fantasy sports in 2015, and that approximately 10.0% of these players earned winnings of at least \$1,200 or more, several calculations can be made:

- If an average of 110,000 taxpayers are billed annually, and 57.5% of these individuals remain delinquent, then approximately 63,250 lowans would remain potentially eligible to be subject to setoff procedures.
- If these taxpayers owe an average of \$330, then an estimated amount of \$20.9 million remains uncollected.

- If 10.0% of Iowa adults participate in Internet fantasy sports contests, and 10.0% of participants have sufficient winnings to withdraw at least \$1,200, then it is possible that 1.0% of uncollected revenue could be withheld from players' winnings. Using the FY 2016 estimate of \$20.9 million of uncollected revenue, approximately \$209,000 could be collected and deposited into the General Fund. Adjusting for CPI inflation using Moody's Analytics, the total amount that could be collected and deposited into the General Fund beginning in FY 2020 is estimated to be \$224,200.

It is important to note that HF 613, as currently written, refers to withdrawals of \$1,200 or more. There is potential that a participant, after making a first attempt to withdraw \$1,200, may discover this threshold and choose to make smaller withdrawals in order to avoid additional garnishment of contest winnings. This could lead to a reduction in funds deposited into the General Fund as collected through the setoff procedure.

Sources

Fantasy Sports Trade Association (FSTA)
Department of Administrative Services (DAS)
Department of Inspections and Appeals (DIA)
Racing and Gaming Commission (IRGC)
Department of Human Rights (DHR)
Department of Public Safety (DPS)
Department of Revenue (DOR)
Department of Public Health (DPH)
Legislative Services Agency (LSA)

/s/ Holly M. Lyons

April 4, 2017

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
